

Message Text

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PAGE 01 MOSCOW 14185 051210Z

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S E C R E T MOSCOW 14185

EXDIS

FROM ROBINSON

E.O. 11652 GDS

TAGS: ETRD, UR, US

SUBJ: SOVIET GRAIN SALE NEGOTIATIONS

REF: A. MOSCOW 14140; B. STATE 237177

1. SUMMARY. GRAIN WORKING GROUP MET FOR ONLY 3-1/2 HOURS OCTOBER 4 AND ENDED WITH GORDEYEV AND HINTON AGREEING TO REPORT SITUATION FAIRLY TO THEIR RESPECTIVE DELEGATION HEADS, BUT AGREED ON LITTLE ELSE. DISCUSSIONS DEFINED ALL ISSUES REMAINING TO BE RESOLVED IN SUFFICIENT CLARITY FOR DECISION, AND IN THIS SENSE REPRESENT PROGRESS. HOWEVER, IN TERMS ACTUAL AGREEMENT ON LANGUAGE, PARTLY AS RESULT NEED IN LIGHT REF B TO REOPEN SOME PREVIOUSLY AGREED MATTERS, MEETING ENDED WITH TWO SIDES OSTENSIBLY FURTHER APART THAN AT BEGINNING.
END SUMMARY.

2. NEW SOVIET DRAFT, UPON RECEIPT, WAS INDEED IMPROVEMENT ON PREVIOUS LANGUAGE, BUT IT WAS ALSO FAR FROM BEING GOOD ENOUGH. DURING FIRST HOUR, HINTON POUNDED AGAIN ON SIMPLE FACT THAT U.S. GOVERNMENT IS NOT IN GRAIN BUSINESS, HAS NO WAY TO COMPEL PRIVATE FIRMS TO SELL, NOR ANY NEED TO DO SO, AND THAT, ACCORDINGLY, IT WAS FUTILE FOR SOVIETS TO CONTINUE TO SEEK U.S. SALES COMMITMENT. WE TABLED NEW COUNTER DRAFT OF ARTICLE 1 WHICH SOVIETS IN THEIR TURN FOUND TO BE UNACCEPTABLE SINCE IT DID NOT MEET, IN THEIR

SECRET

SECRET

PAGE 02 MOSCOW 14185 051210Z

JUDGMENT, "PRINCIPLE OF BALANCE." THEN IN EFFORT TO TURN

AROUND DISCUSSION, HINTON INTRODUCED YET ANOTHER DRAFT OF ARTICLE 1 EXPLAINING THAT IT DESIGNED MEET EXPRESSED SOVIET VIEWS RE BALANCE, STATE U.S. COMMITMENT IN TERMS ACCEPTABLE TO US, BE RESPONSIVE TO SOVIET CRITICISM OF ARTICLE 5-A BY INCORPORATING KEY CONCEPTS FROM 5-A IN ARTICLE 1, THEREFORE, ELIMINATING PARAGRAPH 5-A FOR WHICH PATOLICHEV HAD ORGINALLY INDICATED DISTASTE. WE ARGUED FURTHER THAT ACCEPTANCE THIS PROPOSAL WOULD PERMIT US DRASTICALLY TO CHANGE NATURE AND COMPLEXITY OF UNILATERAL SIDE LETTER WHICH WE NOW ENVISAGED AS ATTACHED TO ARTICLE 2.

3. SOVIETS APPEARED SOMEWHAT TAKEN ABACK AND IMMEDIATELY DENIED THAT THEY WISHED DELETE 5-A (WE TOLD THEM THAT AS RESULT EARLIER CONSIDERATION WE WERE NOW UNDER INSTRUCTIONS TO DELETE IT). NEXT HOUR WAS DEVOTED TO CLARIFICATION OF IMPLICATIONS FOR WEB OF ISSUES INVOLVED IN ESCAPE CLAUSE, ARTICLE 2, AND ARTICLE 5, AS WELL AS TO SOME RATHER SHARP EXCHANGES ABOUT LANGUAGE IN NEW U.S. DRAFT. OUR SENSE OF MATTER IS THAT SOVIETS WERE DEFINITELY INTERESTED AND THAT IF BASIC ESCAPE CLAUSE ISSUE CAN BE RESOLVED IN MANNER WHICH DOES NOT LEAVE US WITH "UNBALANCED" U.S. RIGHT TO REDUCE PURCHASES BELOW 6 MILLION TONS WHILE DENYING SOVIETS POSSIBILITY OF DOING SO, WE WILL HAVE AGREEMENT.

4. FOR YOUR INFORMATION, TEXT OF REVISED ARTICLE 1 FOLLOWS:
"ARTICLE 1. DURING THE PERIOD THAT THIS AGREEMENT IS IN FORCE, EXCEPT AS OTHERWISE AGREED BY THE PARTIES, FOREIGN TRADE ORGANIZATIONS OF THE USSR SHALL PURCHASE FROM PRIVATE COMMERCIAL SOURCES, FOR SHIPMENT IN EACH 12-MONTH PERIOD BEGINNING OCTOBER 1, 1976, SIX MILLION METRIC TONS OF WHEAT AND CORN, IN EQUAL PROPORTIONS, GROWN IN THE UNITED STATES, AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA SHALL EMPLOY ITS GOOD OFFICES TO FACILITATE AND ENCOURAGE SUCH SALES BY PRIVATE COMMERCIAL SOURCES. THE FOREIGN TRADE ORGANIZATIONS OF THE USSR MAY, WHEN THE GOVERNMENT OF THE USSR CONSIDERS THAT IT DOES NOT HAVE A SERIOUS GRAIN SURPLUS AND WHEN THE GOVERNMENT OF THE UNITED STATES CONSIDERS THAT IT DOES NOT HAVE A SERIOUS GRAIN SHORTAGE, INCREASE THIS QUANTITY WITHOUT CONSULTATIONS UP TO TWO MILLION METRIC TONS IN ANY 12-MONTH PERIOD, BEGINNING OCTOBER 1, 1976.

SECRET

SECRET

PAGE 03 MOSCOW 14185 051210Z

PURCHASE/SALES OF WHEAT AND CORN UNDER THIS AGREEMENT WILL BE MADE AT THE MARKET PRICE PREVAILING FOR THESE PRODUCTS AT THE TIME OF PURCHASE AND IN ACCORDANCE WITH NORMAL COMMERCIAL TERMS FOR CASH TRANSACTIONS." AS FAR AS TEXT IS CONCERNED, SOVIETS NOTED DELETION OF "APPROXIMATELY" WHICH WE HAD ACCEPTED IN EARLIER DRAFTS. WE EXPLAINED WE WERE UNDER INSTRUCTIONS TO DELETE "APPROXIMATELY." SOVIETS REPLIED IT WAS COMPLETELY UNREALISTIC TO THINK

THAT WHEAT AND CORN SHIPMENTS COULD BE IN EXACTLY EQUAL PROPORTIONS AND THEIR PURCHASES FROM U.S. EXPORTERS NORMALLY CALL FOR QUANTITIES PLUS OR MINUS 5 PERCENT. JUST AS WE WOULD NOT TAKE COMMITMENT WE COULD NOT FULFILL, THEY COULD NOT TAKE SUCH COMMITMENT. THEIR POINT IS A STRONG ONE, AND WHILE WE LEFT MEETING DISAGREED, IT IS PERFECTLY CLEAR THAT EITHER THE WORD "APPROXIMATELY" OR SOME CLOSE EQUIVALENT SUCH AS THE WORD "ESSENTIALLY" IS NECESSARY FOR US AS WELL AS FOR THE SOVIETS. IN COURSE THIS DISCUSSION, SOVIETS ALSO ATTACKED PHRASE AT END OF PARAGRAPH "FOR CASH TRANSACTIONS." EVENTUALLY, THIS WAS DELETED, SINCE "NORMAL COMMERCIAL TERMS" REMAINS AND ADEQUATELY EXCLUDES IDEA OF CONCESSIONAL FINANCE.

5. RE ARTICLE 2, SOVIETS RETURNED TO PROPOSAL THAT WE DELETE "EXCEPT AS OTHERWISE AGREED BY THE PARTIES" AND FORGET ABOUT ANY SIDE LETTER. WE CONCLUDE THAT IF THEY ACCEPT OUR ARTICLE 1, WHICH PROVIDES U.S. FLEXIBILITY TO REDUCE 8 MILLION TON SOVIET OPTION BY 25 PERCENT WITHOUT ANY NEED FOR EXPLICITLY DEFINING "SERIOUS GRAIN SHORTAGE," WE COULD HAVE FURTHER RIGHT TO REDUCE THEM BELOW 6 MILLION TONS ONLY RPT ONLY IF THEY HAD UNILATERAL RIGHT TO BUY LESS THAN 6 MILLION TONS.

6. IF WE COULD ACCEPT THEIR PROPOSAL RE ARTICLE 1, IT SEEMED IMPLICIT THAT THEY WOULD ACCEPT OUR ARTICLE 1 WITH MINOR CHANGES AND AGREE TO DELETE ARTICLE 5-A.

7. WE ARGUED THAT WE COULD NOT ABANDON SIDE LETTER LINKED TO AGREED EXCEPTION IN ARTICLE 2, BUT THAT IN REALITY WE COULD NOT CONCIEVE OF U.S. CROP SITUATION SO DISASTROUS, EVEN WITH APPLICATION OF GENERALIZED EXPORT CONTROLS, WHERE THE PROPORTIONATE SHARE OF REDUCTION OF ALLOWED EXPORTS TO THE
SECRET

SECRET

PAGE 04 MOSCOW 14185 051210Z

SOVIET UNION WOULD BE MORE THAN 25 PERCENT. THEY SEEMED TO RECOGNIZE THAT FACTUALLY THIS WAS CORRECT, SINCE IN ALL PROBABILITY BASE FROM WHICH REDUCTIONS WOULD BE CALCULATED ON PRO-RATA BASIS WOULD BE WELL ABOVE 6 MILLION TONS AND THAT 25 PERCENT BUILT-IN ESCAPE CLAUSE IN ARTICLE 1 SHOULD BE FAR MORE THAN NECESSARY. NEVERTHELESS THEY ASSERTED-- AND WE COULD NOT DENY--THAT OUR APPROACH LEFT OPEN THE THEORETICAL POSSIBILITY OF A REDUCTION BELOW 6 AND WOULD, INDEED, PROVIDE A LEGAL BASIS FOR DOING THIS WHILE NOT PROVIDING AGREED BASIS FOR THE SOVIETS TO PURCHASE LESS THAN

6. WE LEFT THE MATTER THERE, PLEDGED TO REPORT OUR RESPECTIVE VIEWS TO HEADS OF DELEGATION AND THROUGH THEM TO OUR GOVERNMENTS.

8. WE CLEANED UP ARTICLE 3 WHICH NOW READS:

"ARTICLE 3. IN CARRYING OUT ITS OBLIGATIONS UNDER THIS AGREEMENT, THE FOREIGN TRADE ORGANIZATIONS OF THE USSR SHALL ENDEAVOR TO SPACE THEIR PURCHASES IN THE UNITED STATES AND SHIPMENTS TO THE USSR AS EVENLY AS POSSIBLE OVER EACH 12-MONTH PERIOD."

9. WE HAVE NO SERIOUS PROBLEMS WITH OTHER ARTICLES, ALTHOUGH OUR EFFORTS TO GET SOMETHING ON INFORMATION EXCHANGE AND STOCKS MEANS THAT WE HAVE FORMAL DISAGREEMENTS IN SEVERAL PLACES. WE ARE CONVINCED, HOWEVER, THAT THE BEST WE CAN DO ON THESE ISSUES IS SOME REFERENCE IN THE PREAMBLE. HOWEVER EACH FORMULATION ON THIS WE SUGGESTED WAS REJECTED BY THE SOVIETS. GORDEYEV DID, HOWEVER, FINALLY AGREE, WHEN WE INSISTED THAT WE WERE UNDER FIRM INSTRUCTIONS, TO CONSIDER THE MATTER FURTHER AND PERHAPS AT OUR NEXT MEETING TO MAKE PROPOSALS FROM HIS SIDE. WE WILL HAVE SOMETHING, WE ARE CONVINCED, BUT IT WON'T BE MUCH, AND IN THE PREAMBLE IT WILL ONLY BE WINDOW DRESSING.
STOESSEL

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